

## Message Text

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ACTION NEA-10

INFO OCT-01 EUR-12 ISO-00 EB-07 AID-05 IGA-02 TRSE-00

OMB-01 L-03 CIAE-00 DODE-00 INR-07 NSAE-00 PA-01

USIA-06 PRS-01 SP-02 /058 W

-----040120Z 055070 /73

R 030939Z JUN 77

FM AMEMBASSY NEW DELHI

TO USDA WASHDC

INFO SECSTATE WASHDC 3830

AMEMBASSY MOSCOW

AMCONGEN BOMBAY

AMCONGEN CALCUTTA

AMCONGEN MADRAS

LIMITED OFFICIAL USE NEW DELHI 7926

USDA FROM ACTING AGATT PASS FAS/G&F DIV., AND ERS

E.O. 11652: N/A

TAGS: EAGR, SOV, IN

SUBJECT: GOI FOOD POLICY & THE USSR WHEAT LOAN

REF: A. NEW DELHI 7596 B. NEW DELHI 5343

1. SEVERAL INDIAN DAILIES DURING THE PAST TWO DAYS HAVE BROACHED THE SUBJECT OF THE USSR WHEAT LOAN REPAYMENT. ECONOMIC TIMES ARTICLE DATED BOMBAY, JUNE 1, FEATURED FOR FIRST TIME SOVIET RELUCTANCE TO ACCEPT REPAYMENT IN KIND DUE TO QUALITY ASPECTS OF BOTH INDIGENOUSLY PRODUCED AND OLD IMPORTED STOCKS OF WHEAT. HESITANT ACCEPTANCE IN PRINCIPAL BY USSR FRAMED IN THE CONTEXT OF PRESENT BARELY MANAGEABLE FOODGRAIN STOCKS, BUT OTHER CONSIDERATIONS UNDOUBTEDLY EXACERBATING THE GOI'S SENSE OF URGENCY INCLUDE SUCH RELATED ISSUES AS MINIMAL LEVELS OF PUBLIC OFFTAKE, UNEXPECTEDLY HIGH LEVELS OF PROCUREMENT, AND PROXIMITY OF THE 1977 SW LIMITED OFFICIAL USE

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MONSOON (ARRIVED SOUTH KERALA ON SCHEDULE, JUNE 1). SEVERAL ARTICLES ALSO MENTIONED SOVIET TEAM VISIT LATE JULY TO INSPECT WHEAT QUALITY AND PORT DISPATCH FACILITIES AND AN AUGUST/ SEPTEMBER FRAMEWORK FOR INITIAL SHIPMENTS. INASMUCH AS THE OBLIGATION TO REPAY APPROXIMATELY 400,000 TONS HAS ALREADY BEEN FULFILLED BY SUBSTITUTE NON-FOOD COMMODITIES, A BALANCE OWED OF ROUGHLY 1.6 MILLION TONS WAS DISCUSSED. IN DIRECT

CONTRADICTION, ET ARTICLE DATED NEW DELHI, JUNE 2 QUOTES OFFICIAL SOURCES AS SAYING THE PROBLEM FACING THE COUNTRY IS THE INSUFFICIENCY OF ADEQUATE STORAGE AND NOT A RISING SURPLUS OF EXPORTABLE WHEAT. SAME ARTICLE INDICATES TWO CROP FAILURES WOULD AGAIN RENDER THE INDIAN FOODGRAIN SITUATION PRECARIOUS AND THEREFORE NO CUSHION FOR EXPORTS EXISTS.

2. AS PER A RELATED AND ADJACENTLY REPORTED ET ARTICLE DATED NEW DELHI, JUNE, 1, AND A TIMES OF INDIA ARTICLE DATED NEW DELHI, JUNE 2, THE GOI IS APPARENTLY CONSIDERING A REDUCTION IN THE PRICE AT WHICH WHEAT IS DISTRIBUTED THROUGH SOME 240,000 FAIR PRICE/RATION SHOPS. ALREADY FACED WITH BURDENSOME STOCKS AND MOUNTING PROCUREMENT, THE OPEN MARKET PRICE OF WHEAT IN FIVE MAJOR RABI WHEAT-PRODUCING STATES HAS (AS WAS THE CASE LAST SEASON) DROPPED TO LEVELS THAT COMPETE WITH PUBLICLY DISTRIBUTED WHEAT. CURRENT THINKING SEEMS TO BE FOR A REDUCTION OF RS. 10/QUINTAL FROM THE PRESENT ISSUE PRICE OF RS. 129. IF IMPLEMENTED, THE MEASURE WOULD CONSTITUTE THE LATEST ELEMENT OF THE NEW GOVERNMENT'S NATIONAL FOOD POLICY ANNOUNCED APRIL 12 (SEE REF. B).

3. ONE INESCAPABLE CONSEQUENCE OF SUCH ACTION WOULD BE A SUBSTANTIAL ADDITION TO THE FOOD SUBSIDY, WHICH ALREADY BURDENS THE GOI IN ITS OPERATION OF THE PUBLIC DISTRIBUTION SYSTEM WITHOUT NECESSARILY SIGNIFICANTLY ENHANCING PUBLIC OFFTAKE. DURING 1976-77, THESE COSTS AMOUNTED TO RS. 5.6 BILLION (APPROXIMATELY \$650 MILLION), OR ALMOST 6 PERCENT OF THE GOI'S BUDGET AND 23 PERCENT OF THE INCREASE IN THE MONEY SUPPLY LAST YEAR. SOME RS. 4.6 BILLION HAS BEEN BUDGETED FOR LIMITED OFFICIAL USE

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THIS YEAR, A FIGURE SOME CONSIDER UNREALISTICALLY LOW IN VIEW OF THE APRIL REVISION OF PROCUREMENT AND SUPPORT PRICES FOR DIFFERENT GRAINS. DEPENDING UPON THE EXTENT TO WHICH OFFTAKE THROUGH THE PUBLIC DISTRIBUTION SYSTEM IS INCREASED, THE LOWER ISSUE PRICE COULD MEAN A NET ADDITION TO THE FOOD SUBSIDY VARIOUSLY ESTIMATED AT BETWEEN RS. 500-1,000 MILLION. AT PRESENT, BUDGETARY ESTIMATES FORECAST SUCH OFFTAKE AT 9.56 MILLION TONS FOR 1977-78, UP FROM THE UNUSUALLY LOW 7.5 MILLION TONS RECORDED DURING 1976-77. HOWEVER, REPORTS PLACE CURRENT MONTHLY LEVELS AT LESS THAN 500,000 TONS, OR SOME 55 PERCENT OF NORMAL.

4. WHILE NOT DISCOUNTING THE PRESSURE CREATED BY WHAT WILL PROBABLY BE PEAK LEVEL STOCKS OF 21-22 MILLION TONS SOMETIME NEXT MONTH, WE CONTINUE TO DISCOUNT THE LIKELIHOOD OF WHEAT EXPORTS PRIOR TO OCT. 1, I.E. IN CONFORMANCE WITH THE P.L. 480 AGREEMENT SIGNED IN MARCH 1976. RESPONSIBLE POLICY MAKERS IN NEW DELHI ARE WELL RPT WELL AWARE OF THE LEGAL REQUIREMENTS OF THE MARCH 1976 AGREEMENT AND THE CONFUSION AND ERRONEOUSLY REPORTED DATA

RE P.L. 480 IS PRESUMMED TO REFLECT THE BROADENING OF CURRENT  
"CONTINGENCY DISCUSSIONS" TO OTHER MINISTRIES.  
GOHEEN

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## Message Attributes

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